Also, so far as the putting-out of bank notes would meet a run for cash, the bill is to be commended; but the process of providing a currency based on securities practically removes this advantage from consideration, because the run would be over, and the bank closed, before these emergency notes could be obtained.

J. LAURENCE LAUGHLIN

THE UNIVERSITY OF CHICAGO

---

## RELATION OF PACKERS' CREDIT TO PANIC AND PRICES

The unprecedented decline in the price of hogs, a drop of $2.70 per hundred in six weeks, is one of the incidental results of the recent panic. This phase has received slight attention in the public press or the financial journals. The live-stock journals discuss and explain the situation occasionally but the daily newspapers do no more than chronicle the facts in their market reports. The front pages and editorial columns are filled with comments on the stock market and banking situation as it changes from day to day. A few people, mostly stock gamblers and speculators, are vitally interested in the ups and downs of the stock exchange, but their number is insignificant compared with the number of producers who have hogs, cattle, and sheep to sell. The sums involved in the stock exchange, however, make the two millions of dollars daily paid out to farmers for live stock at the packing centers look insignificant. Nevertheless, it is a very serious matter for the individual farmer or hog shipper to find hogs fifty cents or a dollar a hundred lower when he gets them to market than they were two or three days before when he bought or loaded them. A decline of 20 or 30 per cent. may as easily ruin the hog dealer as a like decline in stocks may ruin the Wall Street dealer.

In the hog market the decline in the average price of hogs between November 17 and November 25 was $1.17 per hundred, from $5.13 to $3.96, or over 22 per cent. Between October 11 and November 25 the decline was $2.70 per hundred-weight, or more than 33 per cent. Indeed, between the extreme high point in October and the low point in November the difference was about 40 per cent. From the extreme low point of $3.96 the price recovered $1.00 in four market days. This was clearly due to the competition of local butchers and purchases for the eastern markets. The

local butcher was stimulated to increase his purchases by the wide margin between the prices the packers were paying for hogs and the high prices the retailers were compelled to pay for pork products. A decline of $1.50 per hundred in the price of the raw material occurred before any reduction in prices was made to the retailers. At this time the packers were also more pressing in their collections.

Under normal conditions the packer makes up the statement for the retailer Saturday and does not include the Saturday's purchases. They go over to the next week's bill. During the stringency the statements were delayed long enough to get the Saturday's purchase on the bill, and any dealer who did not pay his bill before Wednesday found his Thursday order sent C. O. D., no matter what his financial standing. This seems to leave the retailer blameless for the high prices and the consumer and producer both require the packer to explain. The producer wants to know what has become of the $2.00 per hundred he was expecting and did not get, and the consumer wants to know why he must still pay prosperity prices for meat. There seems to be a strong *prima-facie* case for packers' profits and more charges of trust prices and extortion. What can be said for the packer? It was up to him to explain to both parties. His explanation was quite simple, but he did not state it as clearly and simply as it really was. He is so accustomed to attack and condemnation in the sensational journals and magazines that he preferred to bear another attack in silence rather than risk the injury to his credit which an accurate and straightforward statement of the actual situation involved. He said, in general terms, that the monetary situation made it difficult for him to obtain funds with which to buy cattle and hogs even at reduced prices. When banks refused to lend to anyone the packer could not expect exceptions in his favor. With the disturbed condition of the market he could not cash the stocks of meat already on hand, so he was forced to keep out of the market no matter how attractive the prices. The live-stock market is a spot-cash market calling for a payment to the farmers of a million dollars a day at Chicago and an equal amount at the other packing centers. When a financial disturbance or anything else cuts down his sales the packer is soon forced to borrow at the banks and, if funds are not obtainable, to curtail operations. Under ordinary conditions when prices fall slightly below the normal he

is ready to take all the hogs and cattle offered and put them in the coolers until conditions improve. Under the conditions existing through October and November, 1907, he could not borrow and has been forced to confine his operations to the demands of current consumption. He has put nothing in his cellars, although normally he should begin to fill them about this time and he did begi as soon as it was possible to obtain funds.

Such a general statement is plausible and does not reflect upon the packer's financial standing or the special conditions affecting his credit. He can and does go further in explaining the break in the price of hogs, and if he can prove his contention he can justify the fall in prices of which the farmer complains, although he will still have the vastly more numerous consumers to deal with. Briefly, the packer claims that the price of hogs has been unduly high for a long time. The average price for the years 1904 and 1905 was $5.10 and $5.25 respectively, and these prices are quite above the normal prices as shown by a ten- or twenty-year average. A $5.00 price, the packer claims, will show a good return to the hog producer under normal conditions. He argued this way through the fall of 1906, and was so firmly convinced that prices would come down that he made contracts for pork products on the basis of lower hog prices. The heavy consumption of pork, the independent position of the farmer, the competition of outside plants, and other conditions kept the price above the $6.00 level right through last year's packing season, involving heavy losses to the big packers on their contracts besides the loss due to partly idle plants while they were trying to put prices down to what they thought a normal level. High prices meant big profits to the farmer and naturally stimulated production, so the packers were even more certain this year than last that a break in prices was due, and as business men they used all their power to bring it about. Thus they explain half the decline to the farmer by telling him he must not be enough of a hog to want all the profits all the time.

If we accept $5.00 as a normal price for hogs, that leaves only the sudden break to below $4.00 during the last week in November to be explained. The real financial situation will possibly explain that but the general statement given above needs amplification. The sharp decline came after the worst of the financial pressure was over and conditions in the loan market were improving. If the credit of the packers was not unduly extended they could have

obtained funds to begin filling their cellars whenever they thought prices were low enough. Either their credit was not good or they are justly chargeable with hammering prices unjustly. Abundant and persistent rumors indicate that the credit of some of the most important packers has been unduly extended. This may have been partly due to high prices paid for hogs and cattle last year, partly due to extensive improvements required by the federal legislation and public agitation. These improvements called for large outlays. Aside from special causes, however, it is evident that a company doing business that calls for branch houses all over the world and expensive transportation facilities in addition to the large plants and storage facilities at the packing centers must possess very large capital or be very large borrowers.

If the packers had been able to gather up and invest in their business all the profits sensational critics have credited them with they could probably finance even their extensive business without undue reliance upon the banks. The high interest rates and commission charges they have been paying all summer, not only to Chicago banks, but to the local banks throughout the country, indicate that the profits in the packing business have not given the packers the dominant financial position sometimes assigned to them. Indeed current rumor made the financial weakness of one of the big packing companies a serious cause of the recent loss of confidence and the bank stringency. Months ago their need for funds exceeded what the big credit institutions of Chicago and New York were willing to supply. Their paper, bearing 7 per cent. interest, with large brokerage commissions or expenses in addition, was persistently thrust upon the country bankers. The general reputation and standing of the company made it easier for the country banker to accept the plausible arguments of the note broker or city banker who offered him 7 per cent. paper bearing the signature of this well-known company. Thus large sums in the aggregate that should be kept in control of bankers to meet the current business needs of their communities have been tied up in a distant business enterprise of which they know nothing save its general reputation.

The fact that the company's assets are sufficient to pay all liabilities does not make it possible for the banker to get his funds when they are called for. The company that depends upon banks for an undue portion of its capital, finds itself not only burdened with heavy interest charges but is in danger of a receivership when a

flurry comes, and it seriously endangers the banks and the community that have really advanced business capital while nominally discounting commercial paper. The credit that the packer used to obtain his working capital cannot be available to obtain funds for temporary use. The banker who found himself compelled to extend the 7 per cent. note of this powerful company naturally received a shock which weakened his confidence. Even if his depositors had not yet become alarmed and called for their deposits, he thought it would be safer if not so profitable to get his funds out of the big institutions which he had some cause to suspect and keep them where his personal knowledge enabled him to look after the safety of the investments more intelligently. When deposits with the central banks were called for and not obtained then the local banks became really alarmed. Reports of disturbances, failures, and suspension of payment by the city banks alarmed the country depositor and he tested his bank only to find that his deposit was not available. The country banker, unable to recall his reserve deposits or to secure payment of the packer's notes he had discounted pressed the farmer who had secured loans to buy corn for his feeding operations, and thus the cattle and hogs were forced upon the market regardless of price just at the time when the packer's abuse of his credit had made it impossible to take advantage of the low prices.

At the beginning of the winter the packer is well satisfied to get prices as low as possible. The heavy runs of hogs come in the winter months, and if they can be bought at low prices less capital is required and the chance to make a profit on the product is much improved. Quotations since 1900 show November prices have averaged about $5.50, December prices about $5.00, while the annual average for these years has been $5.75. Besides this natural desire to get hog prices as low as possible for the above reason, which applies every year, the hard-pressed packer was able to derive a special advantage from the panic situation by keeping prices to the retailer on the old level for a month while he was buying the raw material much cheaper than he had been able to get it since 1905. This wide margin of profits with the strict collections from the retailer which he insisted upon enabled him to carry on a moderate volume of business without assistance from the banks. This process was continued long enough and the margin between purchasing and selling price made wide enough to secure the packer

profits sufficient to pay off some of his notes and reduce his line of credit to more manageable dimensions. If the packing combination or trust were in working order it would have been quite easy for the packers to continue the large profits for a long time. The actual situation shows how clearly their power is limited and how narrow the margin of advantage which the big packer possesses over the smaller packer or the butcher. Until November 25 retail prices did not decline. Hogs had declined $1.50 by November 21 with a gradual increase in the number killed by local butchers and more rapid increase in the number shipped to eastern markets. With the sharp break in prices the butchers and shippers became more aggressive. Men who had been out of the market for months began to buy and kill hogs instead of buying their meat from the packers. They had cash or credit to pay for $4.00 hogs even if the big packers did not, and their competition during the last week in November put prices up a dollar a hundred to the farmer. Their competition or other cause also reduced prices of fresh meat to the retailers, showing rather conclusively that the market is not in the control of any trust or combination.

William Hill

The University of Chicago

## AN IMPORTANT LABOR INJUNCTION

The decision recently handed down by Judge Gould of the Supreme Court, District of Columbia, enjoining the American Federation of Labor from further boycotting the Buck's Stove and Range Co., of St. Louis, may have considerable influence in determining the future trend of the American labor movement.

For some years the American Federation of Labor has been publishing in its official journal, the *American Federationist,* lists of manufacturers supposedly hostile to union labor. Some time ago the Buck's Company brought action in the courts to have the federation enjoined from publishing its name in these so-called "unfair" and "we don't patronize" lists on the ground that its business was thus being destroyed by an illegal conspiracy.

This case was of more than local importance. Mr. Van Cleave, president of the Buck's Co., is likewise president of the National Association of Manufacturers. At the last convention of that powerful association it was voted to expend $500,000 per year during